

FDIC State Profile

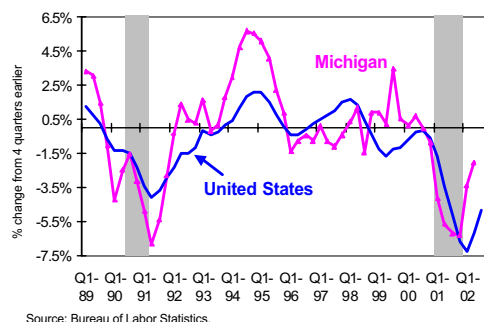
WINTER 2002

Michigan

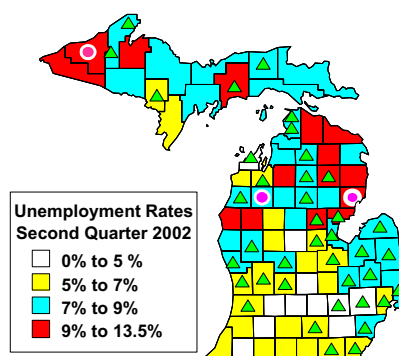
Michigan Participates in the Nation's Economic Recovery

- Shifts in Michigan's manufacturing employment during the recent recession tracked the nation's more closely than historically (see **top chart**). To some extent, this development reflects that motor vehicle production, an important sector in the state, remained relatively strong during the recession and that Michigan has reduced its reliance on this sector during the past decade.
- Total employment in the state in third-quarter 2002 remained more than 3 percent below of its pre-recession peak in 2000. Over the same period, manufacturing employment has fallen about 8.5 percent, accounting for about 55 percent of the total contraction in employment. As the pace of job losses in manufacturing eased so did the pace of losses in related industries such as wholesale trade and business services sectors. Retail trade is the only major sector in which job losses intensified in the 12-month period ending August 2002.
- Michigan's unemployment rate appears to have peaked around 6.3 percent in second quarter 2002, almost double the rate in early 2000. Rates vary among counties (see **map**), reflecting the differing industrial compositions. Triangles on the map represent counties where the rate rose 100 basis points or more in the year ending second quarter, while circles represent the few counties where the rate has fallen by a like amount.
- Conditions in commercial real estate markets appear weak. Rising vacancy rates for office, retail, and warehouse properties in **Detroit** reflect that net new supply—from construction and vacated space—has outpaced demand. Office vacancy rates in Detroit increased to 17 percent in the suburbs and 25 percent downtown in second quarter, 2002, from almost 10 percent and 20 percent, respectively, a year earlier. While lease activity reportedly is picking up in some markets, owners are typically offering periods of free rent and other incentives to attract tenants.
- As typically happens in a cyclical recovery, not all indicators are positive or negative. Although the state's unemployment rate has stabilized, it remains relatively high, and Michigan joins other states in experiencing a high number of personal and business bankruptcy filings. On another

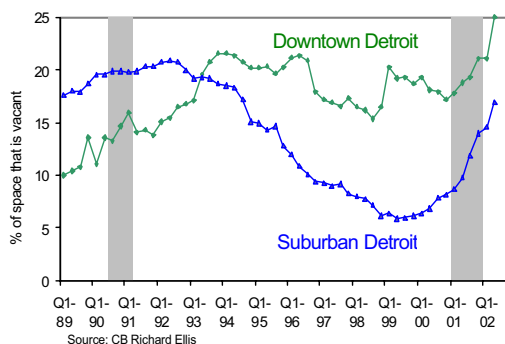
Manufacturing Employment in Michigan Is Showing More Improvement in 2002 than Manufacturing Jobs Nationwide



Unemployment Rates Vary Across the State



Office Vacancy Rates in Detroit Reflect Impact of Economic Conditions



State Profile

front, rising home resales in recent quarters have been accompanied by less price appreciation, hinting that the housing market's strength may be waning.

- The state and national economies in early October appeared to be on track for continuing expansion, but the recovery is vulnerable to shocks that could arise at home or abroad.

Overall banking conditions among insured institutions in Michigan are generally satisfactory, although asset quality may demand further attention as the state recovers from the economic downturn.

- Profitability has held up well, with an annualized median return on assets of 1.15 percent through the second quarter of 2002, up eight basis points from one year ago. Net interest margins in the state are much higher than many other midwestern states, owing largely to the higher share of commercial

credits held. Margins have also improved during this year's more stable interest rate environment (see **table** below), as funding costs improved more than asset yields declined. The funding cost improvement was helped by recent growth in core deposits.

Earnings and Capital are Generally Sound Among Michigan's Institutions

Median Ratio	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02
Net Interest Margin	4.64	4.60	4.43	4.48	4.28	4.36
Return on Assets	1.21	1.20	1.12	1.12	1.07	1.15
Tier 1 Capital	9.15	9.57	9.28	9.15	8.93	8.94

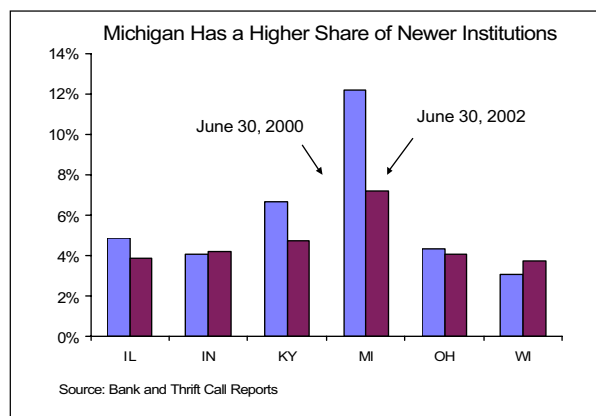
Source: Bank and Thrift Call Report

- Credit quality has deteriorated during the last year, as insured institutions continue to experience the effects of recent economic weakness. The aggregate past-due ratio for Michigan's community¹ institutions was 2.82 percent as of June 30, 2002, up 19 basis points from a year earlier. Furthermore, year-

to-date annualized net loan losses rose to 0.27 percent of total loans as of June 30, 2002, up from 0.14 percent one year ago. Unlike community institutions, larger institutions in Michigan have seen a slight improvement in the aggregate past-due ratio during the last year.

Michigan has a relatively high share of newer institutions.

- Michigan has the largest percentage of new institutions (established within the last three years) of any state in the **Chicago** Region (see **chart**). As of second quarter 2002, 13 institutions had been in operation three years or less, representing roughly seven percent of total banks and thrifts in the state. In addition, there are 39 institutions in the state, (22 percent), that have been in operation for nine years or less.
- Newer institutions may face greater challenges than seasoned institutions in weathering weak economic conditions. Newer institutions tend to have higher concentrations of higher-risk loans, such as commercial and industrial loans and commercial real estate loans, and they tend to have more volatile funding structures.



¹ Community institutions are insured institutions with less than \$1 billion in assets, excluding de novos and specialty institutions

Michigan at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98	Jun-97
Institutions (#)	181	184	197	193	186	200
Total Assets (in thousands)	156,868,246	169,171,663	165,718,600	151,157,054	147,290,924	143,713,644
New Institutions (# < 3 years)	13	22	24	23	15	10
New Institutions (# < 9 years)	39	38	37	33	24	18
Capital						
Tier 1 Leverage (median)	8.94	8.93	9.15	9.28	9.57	9.15
Asset Quality						
Past-Due and Nonaccrual (median %)	2.11%	2.06%	1.52%	1.54%	1.78%	1.98%
Past-Due and Nonaccrual ≥ 5%	24	26	16	11	14	21
ALLL/Total Loans (median %)	1.30%	1.27%	1.27%	1.29%	1.30%	1.29%
ALLL/Noncurrent Loans (median multiple)	1.43	1.64	2.57	2.32	2.17	2.25
Net Loan Losses/Loans (aggregate)	0.39%	0.44%	0.21%	0.21%	0.25%	0.30%
Earnings						
Unprofitable Institutions (#)	14	17	16	20	12	13
Percent Unprofitable	7.73%	9.24%	8.12%	10.36%	6.45%	6.50%
Return on Assets (median %)	1.15	1.07	1.12	1.12	1.20	1.21
25th Percentile	0.77	0.76	0.79	0.75	0.91	0.93
Net Interest Margin (median %)	4.36%	4.28%	4.48%	4.43%	4.60%	4.64%
Yield on Earning Assets (median)	6.99%	8.31%	8.22%	7.88%	8.32%	8.35%
Cost of Funding Earning Assets (median)	2.67%	3.96%	3.78%	3.48%	3.80%	3.73%
Provisions to Avg. Assets (median)	0.17%	0.16%	0.14%	0.13%	0.13%	0.13%
Noninterest Income to Avg. Assets (median)	0.70%	0.70%	0.62%	0.66%	0.69%	0.63%
Overhead to Avg. Assets (median)	3.06%	3.12%	3.05%	3.19%	3.24%	3.15%
Liquidity/Sensitivity						
Loans to Deposits (median %)	90.64%	91.76%	90.31%	84.47%	82.43%	81.76%
Loans to Assets (median %)	74.38%	75.73%	74.10%	71.00%	70.16%	69.34%
Brokered Deposits (# of Institutions)	66	57	54	40	37	31
Bro. Deps./Assets (median for above inst.)	7.32%	4.37%	7.18%	3.03%	2.69%	2.32%
Noncore Funding to Assets (median)	20.15%	21.58%	21.16%	16.64%	13.86%	13.38%
Core Funding to Assets (median)	68.16%	67.58%	68.26%	72.54%	74.62%	75.48%
Bank Class						
State Nonmember	102	102	103	97	90	102
National	27	27	34	36	38	40
State Member	32	34	37	36	35	34
S&L	2	2	2	2	2	2
Savings Bank	13	14	14	16	16	19
Mutually Insured	5	5	7	6	5	3
MSA Distribution						
	# of Inst.	Assets	% Inst.	% Assets		
No MSA	79	12,513,265	43.65%	7.98%		
Detroit MI PMSA	40	95,995,743	22.10%	61.20%		
Grand Rapids-Muskegon-Holland MI	20	29,457,019	11.05%	18.78%		
Ann Arbor MI PMSA	12	2,221,329	6.63%	1.42%		
Lansing-East Lansing MI	9	6,121,316	4.97%	3.90%		
Kalamazoo-Battle Creek MI	7	563,476	3.87%	0.36%		
Saginaw-Bay City-Midland MI	5	2,864,404	2.76%	1.83%		
Flint MI PMSA	4	5,424,226	2.21%	3.46%		
Benton Harbor MI	4	1,651,191	2.21%	1.05%		
Jackson MI	1	56,277	0.55%	0.04%		